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Sugar Semi-annual

The report covers supply and demand trends for sugar in South Africa

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Report Highlights:

Sugar cane production is expected to increase by 10 percent to 18.6 MMT in the 2012/13 season on better climatic conditions, compare to the two previous seasons that were recorded as being the worst drought-affected production seasons in the past 20 years in South Africa. Sugar cane area harvested is expected to recover slightly to 287,000 hectares. As a result of higher cane production, sugar production is estimated to increase by almost 20 percent to 2.2 MMT Tel Quell (2.3 MMTRV). South Africa's sugar exports are expected to almost double to about 500,000 MTRV in the 2012/13 season on increased sugar production. South Africa already delivered on its United States tariff rate sugar allocation for the 2012/13 season and could likely supply more than their allocation if unfilled allocations become redistributed.

Executive Summary

After receiving good rains over most of South Africa's sugar cane producing area in the early parts of the year, a dry spell set in and little rain was recorded from February to August. Despite this dry spell, in September the sugar cane producing area received significant rain, hence, sugar cane production is expected to increase by 10 percent to 18.6 MMT in the 2012/13 season. As a result, sugar production is estimated at 2.2 MMT Tel Quell (2.3 MMTRV), almost 20 percent more than in the 2011/12 season. The 1.8 MMT Tel Quell (1.9 MMTRV) sugar that was produced in the 2011/12 season was the lowest the past 15 years in South Africa.

After decreasing by 40 percent in the 2011/12 season to 250,757 MTRV, sugar exports are expected to almost double in the 2012/13 season on increased sugar production to about 500,000 MTRV. South Africa already delivered its United States tariff rate sugar allocation for the 2012/13 season and could supply more than their allocation if unfilled allocations become redistributed.

Sources:

<http://www.sasa.org.za>

<http://www.illovo.co.za>

<http://www.hulets.co.za>

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<http://www.sacanegrowers.co.za>

US\$1=R8.20 (09/25/2012)

Sugar cane

Production

After receiving good rains over most of South Africa's sugar cane producing area in the early parts of the year, a dry spell set in and little rain was recorded from February to August. However, in September the sugar cane producing area received significant rain, hence, sugar cane production is expected to increase by 10 percent to 18.6 MMT in the 2012/13 season (April 2012 to March 2013). Sugar cane area harvested is expected to recover slightly to 287,000 hectares, an increase of about 3 percent, on better climatic conditions, compare to the two previous seasons that were recorded as being the worst drought-affected production seasons in the past 20 years.

In addition to unpredictable weather conditions, South African sugar cane growers are also facing land reform concerns, urbanization, high crime levels, and infrastructure constraints. These factors have lead to a reduction in the sugar cane area harvested and a decline in small scale and large scale producers' numbers (see Figure 1). The number of large scale sugar cane producers declined by 20 percent the past ten years, while small scale sugar cane producers by 47 percent. The sugar cane area harvested decreased by 13 percent, the past ten years. During the past two droughts affected seasons, 11 percent, or 174 large scale sugar cane producers and 25 percent or 8,549 small scale producers went out of business.

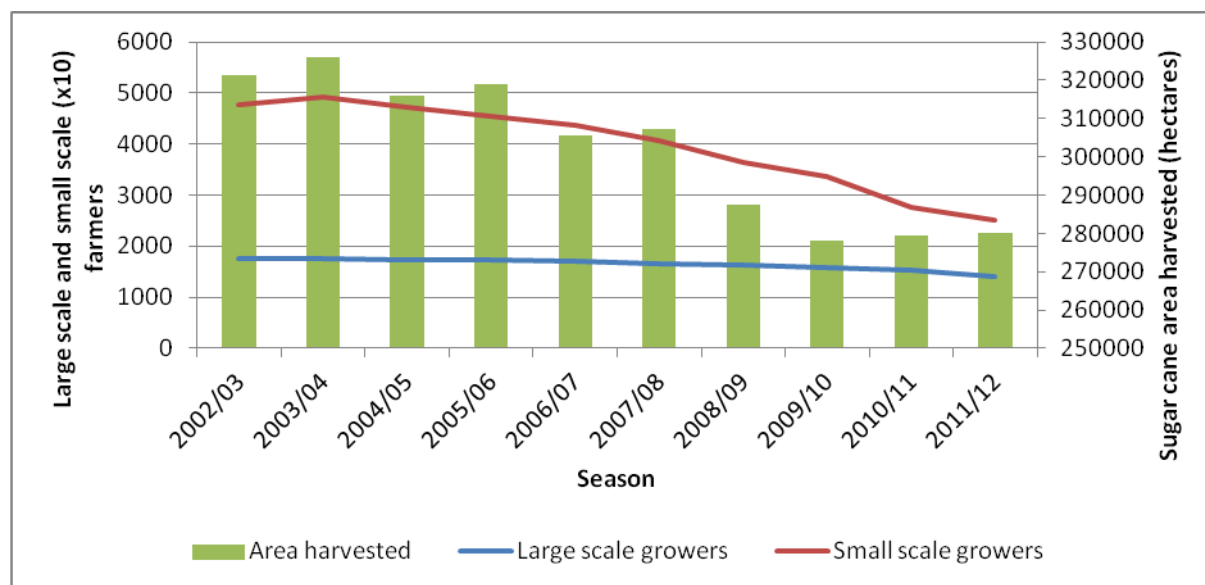


Figure 1: The decline in small scale and large scale sugar cane producers and the decrease in sugar cane area harvested the past 10 years in South Africa

The 2011/12 season (April 2011 to March 2012) sugar cane crop was finalized at 16.8 MMT, only five percent higher than the previous season's 16.0 MMT. Drought and secondary impacts of drought, such as cane root mortality and the forced harvest of young cane, were the major reasons for South Africa having two of the lowest sugar cane production seasons in a row.

For the 2012/13 season, sugar production is estimated at 2.2 MMT Tel Quell (2.3 MMTRV), almost 20 percent more than in the 2011/12 season on the back of a higher expected sugar cane crop. The

estimated 1.8 MMT Tel Quell (1.9 MMTRV) sugar that was produced in the 2011/12 season was the lowest in the past 15 years in South Africa. The relative high cane to sugar ratio of 9.22 for the 2011/12 season illustrates the impact of drought on sugar cane yields. In the 2010/11 season 1.9 MMT Tel Quell (2.0 MMTRV) sugar was produce. Table 1 illustrates the production of sugar in South Africa for 2010/11 (actual), 2011/12 (actual) and 2012/13 (estimate) marketing years.

Table 1: The production of sugar in South Africa

Season	Area planted (HA)	Area harvested (HA)	Yield (MT/HA)	Cane crushed (MT)	Sugar production (MT*)	Cane/sugar ratio
2010/11	382,721	279,535	57.3	16,015,649	1,919,116	8.4
2011/12	384,000	280,274	59.9	16,800,277	1,822,488	9.2
2012/13	388,000	287,000	64.8	18,590,000	2,177,000	8.5

*Tel Quell x 1.035 = Raw value, Refined x 1.07 = Raw value

Alternative uses for sugar cane

In August 2012, the South African government published regulations regarding the mandatory blending of biofuels with petrol and diesel. The regulations allowed for a five percent biodiesel blending and a permitted range of two percent up to ten percent for bio-ethanol. The regulations did not mention the specific feedstocks that can be used for biofuels. A strategic framework for biofuel production in South Africa will now be developed by the government. No implementation date for the mandatory blending was set by the published regulations, and will be determined at a later stage by the Minister of Energy.

The production of electricity from biomass in South Africa was only allocated a small capacity of 12.5MW and this excluded the use of bagasse for electricity production. Discussions have taken place between the Department of Energy and the sugar industry on a process of evaluating the potential of the sugar industry to make a meaningful contribution to the renewable energy program. It is the sugar industry's view that the process will yield a positive result and that the benefits from bagasse-based electricity will have a positive impact on the South African sugar industry and the South African economy.

Review of the Sugar Act (1978) and Sugar Industry Agreement (2000)

The Sugar Act has been amended from time to time in response to changing circumstances in the industry and the environment in which it operates. The Department of Trade and Industry (DTI) is currently busy with another review of the Sugar Act. The DTI's views and objectives for the sugar industry, includes fostering a competitive environment that will contribute to the optimal development of the sugar industry within the accepted framework; to establish a positive legal framework for intervention of government in the sugar sector and to have appropriate interventions that address the impact on the domestic market of the distorted world sugar market.

The new legislative framework promises an environment in which growth and development of the sugar industry will be a main priority. Sugar cane growers are of the view that the new policy and industry framework will prevent the erosion of growers' revenue and put growers in a position to further

their interests within their respective vertical slice arrangement. It is anticipated that the revised sugar industry legislation will be finalized for the 2014/15 season.

Cane prices

The South African sugar industry is a net exporter of sugar. In order to distribute to the world market equitably amongst growers and millers, SASA has implemented a Division of Proceeds. The Division of Proceeds is the formula where revenue that accrues to the sugar industry is allocated to millers and growers under a partnership arrangement. The Sugar Act and the Sugar Industry Agreement provide regulatory support for the Division of Proceeds.

Industry revenues earned from domestic and export sales of sugar and molasses are accounted for by SASA. After the deduction of administration costs, the net proceeds are shared between growers and millers at a predetermined percentage of net proceeds. Cane growers are thus paid for their sugar cane according to the quality of the cane delivered to the mill through this revenue sharing arrangement. Cane quality is measured by the Recoverable Value (RV) formula, which estimates the amount of sugar and molasses that can be produced from a delivery of cane. A provisional Recoverable Value (RV) price is declared monthly during the season which is applied to all cane delivered to date.

The September RV price for sugar cane delivered in August was set at R3,156.57 and reflects relative high international prices and a weaker Rand/US dollar exchange rate. A final RV price for the season is declared in March of each year. The final RV price for sugar in the 2011/12 season was declared at R3,018 per ton, 14 percent higher than the previous season and reflected tight supplies due to the drought. Final RV prices paid the past three years to growers and the September 2012 price are shown in Table 2.

Table 2: Recoverable Value and cane prices

Year (Apl – Mrt)	RV Price (Rand)	Cane Price (Rand)	Average R/\$ Exchange rate
2009/10	2,284.20	284.15	7.80
2010/11	2,572.14	331.55	7.15
2011/12	3,017.51	350.00	7.45
2012/13 (September)	3,156.99	350.00	8.20

Table 3: PS&D for sugar cane

Sugar Cane for Centrifugal South Africa	2010/2011	2011/2012	2012/2013
	Market Year Begin: Apr 2010	Market Year Begin: Apr 2011	Market Year Begin: Apr 2012

	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Area Planted	383	383	383	384	380	388
Area Harvested	280	280	280	280	280	287
Production	16,016	16,016	16,800	16,800	17,850	18,590
Total Supply	16,016	16,016	16,800	16,800	17,850	18,590
Utilization for Sugar	16,016	16,016	16,800	16,800	17,850	18,590
Utilization for Alcohol	0	0	0	0	0	0
Total Utilization	16,016	16,016	16,800	16,800	17,850	18,590
1000 HA, 1000 MT						

Sugar

Production

Sugar production for the 2012/13 season is forecasted to be 2.2 MMT Tel Quell (2.3 MMTRV), 19 percent more than the previous season on the back of better climatic conditions. In the 2011/12 season, South Africa produced its lowest sugar crop the past 15 years at 1.8 MMT (1.9 MMTRV), due to a drought-affected production season.

Consumption

The South African Customs Union (SACU) is the primary market for the South African sugar industry. The SACU market comprises South Africa, Botswana, Lesotho, Namibia and Swaziland. Access to the market is regulated by the Southern African Development Community Sugar Cooperation Agreement. South Africa and Swaziland are the only sugar producers in SACU and together produce in excess of the region's sugar demand, which is estimated at approximately two MMT or 34kg per capita.

The demand for sugar is expected to grow by only two percent in the 2012/13 season. High sugar prices and a slower than expected economic growth rate of only 2.7 percent for South Africa in 2012 are the main reasons for dampening regional demand for sugar. It is expected that the South African sugar industry will supply 1.6 MMT and Swaziland about 340,000 tons to the SACU market in the 2012/13 season.

From South Africa's SACU sales, approximately 44 percent is sold to industrial customers, with the balance sold directly to consumers at retail. Approximately 80 percent of sugar sold to customers is refined sugar and the balance brown sugar. For the 2011/12 season South African sugar sales in the SACU market is expected to increase by three percent to 1.6MMT. Table 3 contains South African sugar sales into the SACU market for the 2010/11 (actual), 2011/12 (estimate) and 2012/13 (forecast) marketing years.

Table 4: South African sales of sugar into the SACU market

MT *	2010/11	2011/12	2012/13
White sugar	1,230,945	1,276,000	1,300,000
Brown sugar	319,132	319,00	330,000

Direct sales	861,273	883,200	910,000
Industrial sales	675,882	701,800	720,000
Total sales	1,550,077	1,595,000	1,630,000
MTRV	1,658,582	1,706,650	1,744,100

*Refined x 1.07 = Raw value

Trade

Sugar exports are expected to almost double to about 500,000 MTRV, representing 22 percent of production, in the 2012/13 season on increased sugar production. South Africa already delivered on its United States tariff rate sugar allocation for the 2012/13 season and could supply more than their allocation if unfilled allocations become redistributed.

South Africa's sugar exports decreased by 40 percent in 2011/12 season to 250,757 MTRV, due to the lowest sugar crop the past 15 years, as a result of drought. South Africa exported 112,946 MT of raw sugar and 128,796 MT (137,812 MTRV) of refined sugar during the 2011/12 season. The 2011/12 sugar exports only represented about 13 percent of total production where the average percentage of production being exported the past ten years was almost 45 percent. Figure 4 illustrates the declining trends in sugar production and exports by the South African sugar industry since the 1997/98 season. However, there is an increasing trend in sugar sales to the SACU market since the 1997/98 season, illustrating the South African sugar industries' competitive advantage in supplying the SACU market with sugar.

Exports and imports for raw sugar and refined sugar for the 2010/11 season and 2011/12 season are shown in the trade matrixes below. Japan (30,000 raw sugar), Mozambique (22,225 MT raw sugar and 42,420 MT refined sugar) and Angola (20,980 MT raw sugar and 6,315 MT refined sugar) were the major export destinations, outside the SACU market, for South African sugar in the 2011/12 season.

Sugar imports are expected to stay at the normal six percent of local production in the 2012/13 season or about 130,000 MTRV. Sugar imports in the 2011/12 season reached 113,221 MTRV.

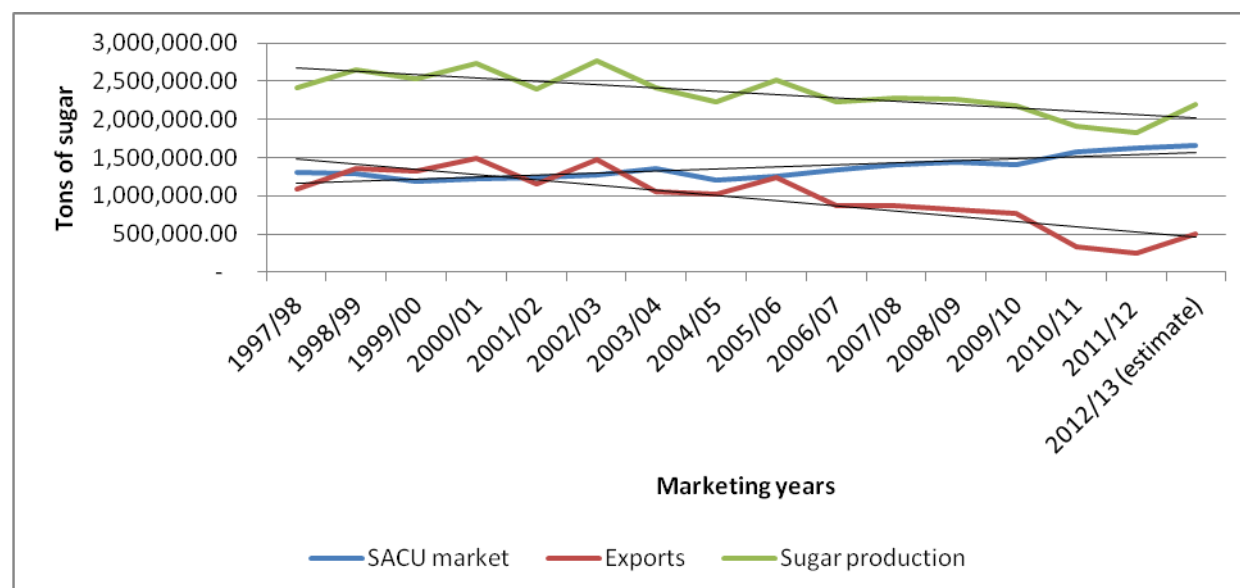


Figure 2: Trends in South Africa's sugar production and sugar sales to the local and export markets

Export Trade

Country	South Africa,			
Commodity	Cane Sugar (HS170111)			
Time Period	My	Units:	Mt	
Exports to:	2010/11		2011/12	
U.S.	1,848	U.S.	14,565	
Others	Others			
Japan	71,336	Japan	30,000	
Mozambique	38,039	Mozambique	22,225	
Zimbabwe	27,980	Angola	20,980	
Angola	24,230	Madagascar	8,147	
Tanzania	10,710	Zimbabwe	7,661	
Madagascar	8,849	Congo	4,114	
Sudan	5,313	Sudan	2,317	
Kenya	5,060	Kenya	1,036	
Total for Others	191,517		96,480	
Others not Listed	9,753		1,901	
Grand Total	203,118		112,946	

Export Trade

Country	South Africa,			
Commodity	Refined sugar* (HS170199)			
Time Period	My	Units:	Mt	
Exports to:	2010/2011		2011/2012	
U.S.	0	U.S.	0	
Others	Others			
Mozambique	66,887	Mozambique	42,420	
Madagascar	28,562	Zimbabwe	29,170	
Kenya	19,654	Uganda	14,533	
Uganda	17,860	Kenya	11,579	
Indonesia	10,403	Madagascar	7,975	
Mauritius	10,008	Angola	6,315	
Sudan	7,344	Tanzania	6,047	
Ghana	8,167	Comoros	3,112	

Total for Others	168,885	121,151
Others not Listed	25,811	7,645
Grand Total	194,696	128,796

*Refined x 1.07 = Raw value

Import Trade

Country	South Africa,		
Commodity	Cane Sugar (HS170111)		
Time Period	My	Units:	Mt
Imports form:	2010/11		2011/12*
U.S.	0	U.S.	0
Others		Others	
Brazil	49,108	Brazil	50,288
		Thailand	2,000
		Zambia	1,442

Total for Others	49,108	53,730
Others not Listed	317	966
Grand Total	49,425	54,696

*April 2011 to December 2011

Import Trade

Country	South Africa,		
Commodity	Refined sugar* (HS170199)		
Time Period	My	Units:	Mt
Exports to:	2010/11		2011/12
U.S.	0	U.S.	0
Others		Others	
Brazil	52,621	Brazil	50,287
United Arab Emirates	2,808	Thailand	2,000
		Zambia	1,443

Total for Others	55,429	53,730
Others not Listed	2,568	966
Grand Total	57,997	54,696

*Refined x 1.07 = Raw value

Table 5: PS&D for sugar

Sugar, Centrifugal South Africa	2010/2011		2011/2012		2012/2013	
	Market Year Begin: Apr 2010		Market Year Begin: Apr 2011		Market Year Begin: Apr 2012	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Beginning Stocks	70	70	175	175	245	215
Beet Sugar Production	0	0	0	0	0	0
Cane Sugar Production	1,985	1,985	1,885	1,885	2,175	2,255
Total Sugar Production	1,985	1,985	1,885	1,885	2,175	2,255
Raw Imports	50	50	70	55	50	50
Refined Imp.(Raw Val)	150	150	150	60	70	80
Total Imports	200	200	220	115	120	130
Total Supply	2,255	2,255	2,280	2,175	2,540	2,600
Raw Exports	205	205	160	115	300	300
Refined Exp.(Raw Val)	210	210	170	140	300	200
Total Exports	415	415	330	255	600	500
Human Dom. Consumption	1,660	1,660	1,700	1,700	1,740	1,740
Other Disappearance	5	5	5	5	5	5
Total Use	1,665	1,665	1,705	1,705	1,745	1,745
Ending Stocks	175	175	245	215	195	355
Total Distribution	2,255	2,255	2,280	2,175	2,540	2,600

1000 MT